

**REPORT OF THE AUDIT OF THE
BRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 10, 2004



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Leslie Newman, Bracken County Judge/Executive

Honorable Mike Nelson, Bracken County Sheriff

Members of the Bracken County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the Bracken County Sheriff's Settlement - 2003 Taxes as of April 10, 2004.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Bracken County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
BRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 10, 2004

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BRACKEN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

April 10, 2004

Carpenter, Mountjoy & Bressler, PSC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Bracken County Sheriff as of April 10, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,695,236 for the districts for 2003 taxes, retaining commissions of \$102,008 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,593,228 to the districts for 2003 Taxes.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky

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Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Leslie Newman, Bracken County Judge/Executive

Honorable Mike Nelson, Bracken County Sheriff

Members of the Bracken County Fiscal Court

Independent Auditor's Report

We have audited the Bracken County Sheriff's Settlement - 2003 Taxes as of April 10, 2004. This tax settlement is the responsibility of the Bracken County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Bracken County Sheriff's taxes charged, credited, and paid as of April 10, 2004, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Leslie Newman, Bracken County Judge/Executive
Honorable Mike Nelson, Bracken County Sheriff
Members of the Bracken County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
September 17, 2004

BRACKEN COUNTY
MIKE NELSON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 10, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 497,989	\$ 407,818	\$ 860,825	\$ 272,562
Tangible Personal Property	30,176	37,572	31,857	45,349
Intangible Personal Property				9,202
Increases Through Exonerations	44	30	60	41
Franchise Corporation	211,652	150,786	182,900	
Bank Franchises	21,820			
Penalties	4,608	3,762	7,755	2,552
Adjusted to Sheriff's Receipt	43	44	35	5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross Chargeable to Sheriff	\$ 766,332	\$ 600,012	\$ 1,083,432	\$ 329,711
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Credits</u>				
Exonerations	\$ 4,001	\$ 3,138	\$ 5,669	\$ 1,848
Discounts	6,929	5,917	11,533	4,283
Delinquents:				
Real Estate	9,358	7,663	16,753	5,122
Tangible Personal Property	214	147	271	1,102
Uncollected Franchise	118	84	101	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Credits	\$ 20,620	\$ 16,949	\$ 34,327	\$ 12,355
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Taxes Collected	\$ 745,712	\$ 583,063	\$ 1,049,105	\$ 317,356
Less: Commissions *	31,980	24,780	31,473	13,775
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Taxes Due	\$ 713,732	\$ 558,283	\$ 1,017,632	\$ 303,581
Taxes Paid	713,732	558,283	1,017,632	303,581
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u> 0 </u>	<u> 0 </u>	<u> 0 </u>	<u> 0 </u>

* See Next Page

The accompanying notes are an integral part of this financial statement.

BRACKEN COUNTY
MIKE NELSON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES
April 10, 2004
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,636,131
3% on	\$	1,049,105

BRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

April 10, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 10, 2004 the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

BRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
APRIL 10, 2004
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 16, 2003 through April 10, 2004.

Note 4. Interest Income

The Bracken County Sheriff earned \$893 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Bracken County Sheriff collected \$13,510 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Bracken County Sheriff collected \$315 of advertising costs and \$540 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

BRACKEN COUNTY
MIKE NELSON, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

April 10, 2004

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted a lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size and budget restrictions, the official has few options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. Therefore, we have judged the lack of an adequate segregation of duties as a reportable condition and a material weakness.

Because of the limitations of the Sheriff's office, it appears that only compensating controls may achieve a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and includes, but is not limited to, the following:

- 1) Cash recounted and deposited by the Sheriff.
- 2) Surprise cash counts by the Sheriff.
- 3) Periodic reconciliation by the Sheriff of daily collection reports to the receipts ledger and deposit slip.
- 4) Reconciliation by the Sheriff of monthly collection reports to the receipts ledger and disbursements ledger.
- 5) Requiring dual signatures on checks, with one being that of the Sheriff.
- 6) Examination by the Sheriff of tax distributions prepared by another employee.
- 7) Delivery by the Sheriff of tax distribution checks and monthly tax reports to the taxing districts.
- 8) Sheriff receiving signed receipt documenting delivery.

We recommend that these controls be performed in order to offset a lack of segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

Sheriff's Response:

None.

PRIOR YEAR

Lacks Adequate Segregation Of Duties

This has not been corrected and is repeated.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Leslie Newman, Bracken County Judge/Executive
The Honorable Mike Nelson, Bracken County Sheriff
Members of the Bracken County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Bracken County Sheriff's Settlement - 2003 Taxes as of April 10, 2004, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Bracken County Sheriff's Settlement - 2003 Taxes as of April 10, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bracken County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

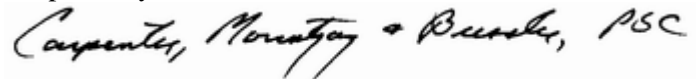
- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
September 17, 2004

